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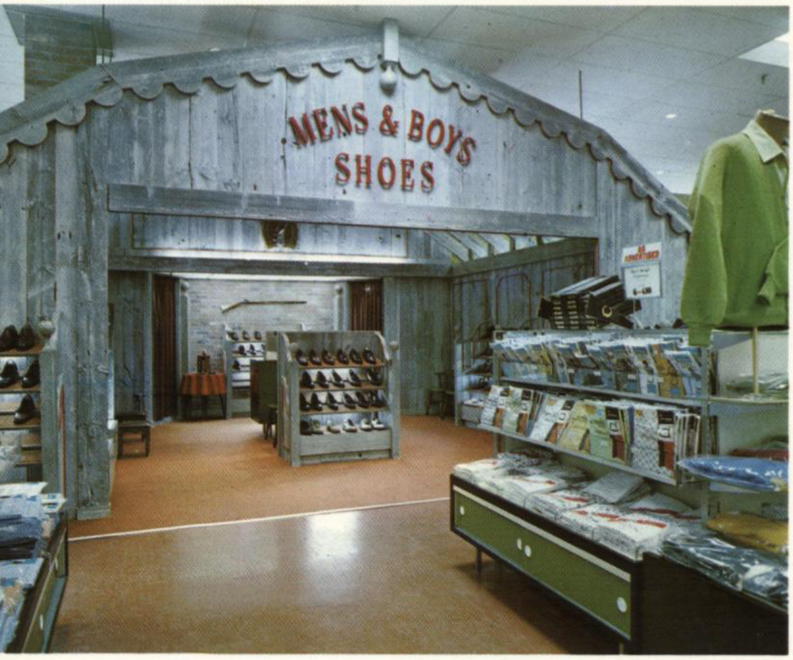
MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

1967 ANNUAL REPORT *FOR THE YEAR ENDED JANUARY 31, 1968*

Three interior views of our new McAlpin store in Lexington, Kentucky, which opened in August, 1967, depicting the latest trends in display and merchandise presentation.


MENS & BOYS
SHOES

Gift Gallery

Cover – Our Joslin Store in the Villa Italia Shopping Center, Suburban Denver, Colorado, which completed its first year of operation during 1967.

MERCANTILE STORES COMPANY, INC.

A Delaware Corporation — Incorporated 1919

Directors

JOHN E. BIERWIRTH

F. K. BRADLEY

MORGAN A. CASEY

ASHTON HAWKINS

HAROLD W. JOCKERS

F. G. KINGSLEY

GERRISH H. MILLIKEN, JR.

MINOT K. MILLIKEN

ROGER MILLIKEN

GEORGE S. MOORE

G. BURTON PEARSON, JR.

R. NELSON SHAW

CHARLES E. STALLINGS

RALPH S. STILLMAN

Officers

HAROLD W. JOCKERS
Chairman of the Board

R. NELSON SHAW
President

F. G. KINGSLEY
Chairman of the Executive Committee

F. K. BRADLEY
Vice Chairman of the Board

FREDERICK W. BLECKWENN
Vice President

MORGAN A. CASEY
Vice President

RONALD W. FERGUSON
Vice President

EDWARD J. SHARKEY
Vice President

CHARLES E. STALLINGS
Vice President

WILLIAM G. STUBENVOLL
Vice President

LEON F. WINBIGLER
Vice President

WILLIAM A. HEINEMAN
Treasurer

R. S. KIZER
Controller

ASHTON HAWKINS
Secretary

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 12:00 Noon, on Wednesday, May 15, 1968, at 100 West 10th Street, Wilmington, Delaware. All stockholders are cordially invited to attend.

Stock Transfer Agent

CHEMICAL BANK NEW YORK TRUST COMPANY
20 Pine Street
New York

Registrar of Stock

FIRST NATIONAL CITY BANK
399 Park Avenue
New York

FINANCIAL HIGHLIGHTS IN BRIEF

	1967 (Year Ended Jan. 31, 1968)	1966 (Year Ended Jan. 31, 1967)
Operating Results:		
Net sales	$256,549,686	$234,267,366
Sales increase percentage	9.5%	6.2%
Income before income taxes	19,106,608	17,394,175
Percent to sales	7.4%	7.4%
Net income before extraordinary item	10,181,608*	9,074,175
Percent to sales	4.0%	3.9%
Per Common Share:		
Net income before extraordinary item	$3.45*	$3.08
Dividends	1.40	1.40
Cash Flow	5.39	4.30
Financial Position:		
Working Capital	$47,332,031	$ 44,768,499
Ratio of current assets to current liabilities	2.84	2.83
Receivables – Net	$20,621,285	$ 22,156,043
Merchandise Inventories	39,756,641	33,324,842
Property and Equipment – Net	48,844,319	44,681,549
Total assets	121,915,321	113,954,714
Long term debt	13,526,096	14,572,462
Stockholders' equity	80,675,254	73,233,586
Per Common Share	27.37	24.84
Ratio of net income before extraordinary item to invested capital	12.6%	12.4%
Stores (at end of year)		
Number	61	60
Total square feet	4,942,000	4,630,000

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* In addition to earnings shown above for 1967, an extraordinary gain on the sale of an investment was realized in the net amount of $1,387,005, or 47¢ per share.

MERCANTILE STORES COMPANY, INC.

100 West 10th Street • Wilmington, Delaware

April 12, 1968

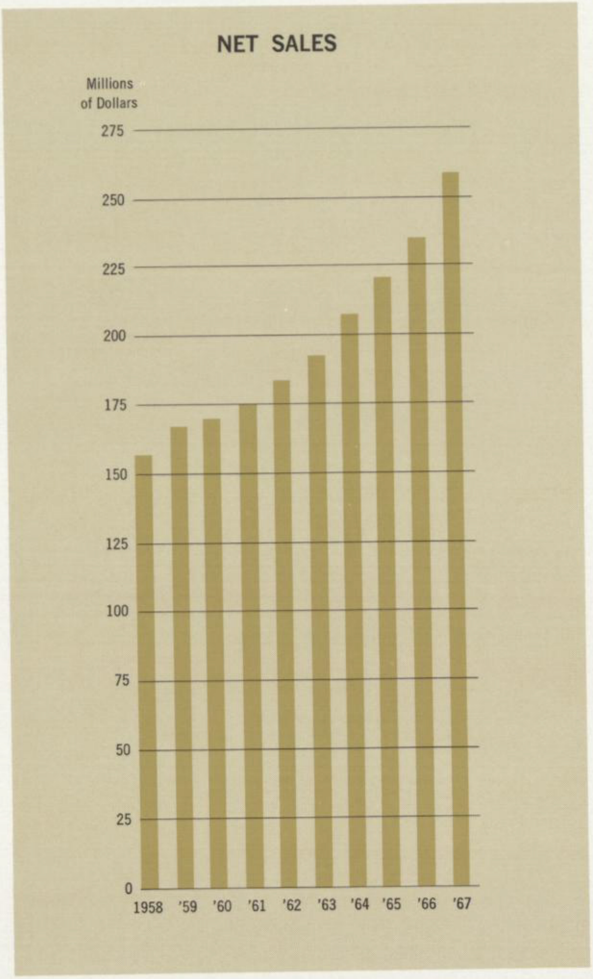
To the Stockholders:

As your Company looks back over a year in which record sales and earnings were achieved and begins, with confidence, its 50th year, it seems more than appropriate that the cover reflect, to a degree, our deeply imbued policy of operating attractive department stores selling quality merchandise for value.

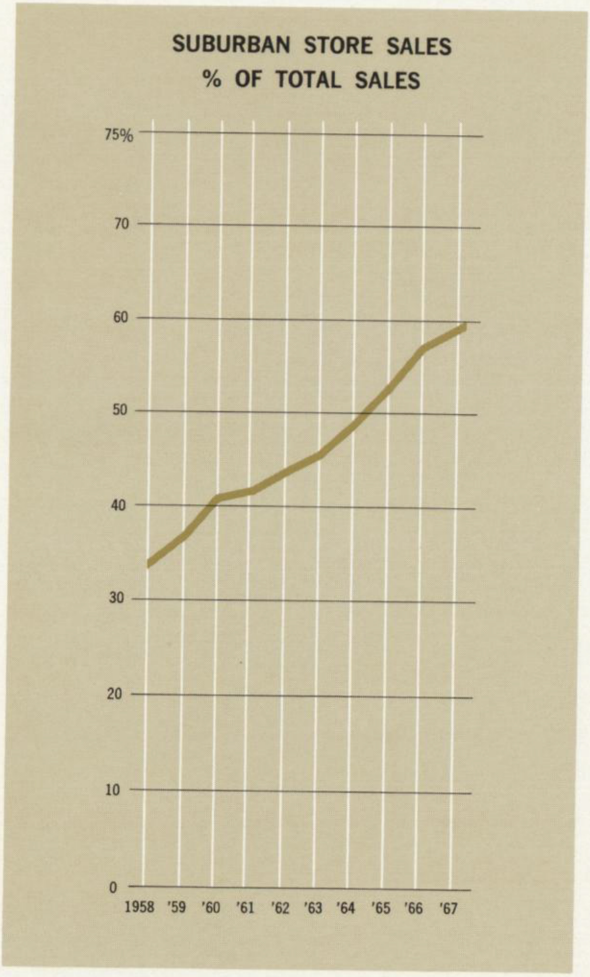
Sales for the fiscal year totaled $256,549,686. Earnings after taxes from normal operations amounted to $10,181,608 which was equal to $3.45 per share. A non-recurring gain of $1,387,005, or 47¢ per share, was realized on the sale of stock held as an investment. Net earnings per share, including this extraordinary gain, rose to $3.92 per share.

Sales

For the first time in the Company's history, sales passed the quarter of a billion dollar mark, aggregating $256,549,686. This figure represented a 9.5% increase over the sales of $234,267,366 reported for the previous year. Sales in stores that were open for the full two years showed an increase of 5.6%.



As forecast, with the constant opening of suburban stores, the proportion of sales from such stores continued to rise. In this latest year, it was 60% of sales. In the prior year it was equal to 57% of sales.



We have every expectation that this ratio of suburban sales to downtown sales will continue to rise because the expansion planned for the next several years consists entirely of suburban units. We believe that we still have considerable sales potential available in areas surrounding our downtown stores.

Some of our newer units will be constructed some distance from our main stores but we look upon this development as a challenge that will be successfully met and which will enlarge the horizons for your Company. In fact, our McAlpin Store, in Lexington, Kentucky, which is located some 90 miles from its main unit in Cincinnati, Ohio, represents, at the moment, the furthest extension of this exciting new phase.

Earnings

Earnings before taxes from normal operations this year amounted to $19,106,608 which was greater by $1,712,433 than the pre-tax earnings of $17,394,175 reported last year. This represented an increase of 9.8%.

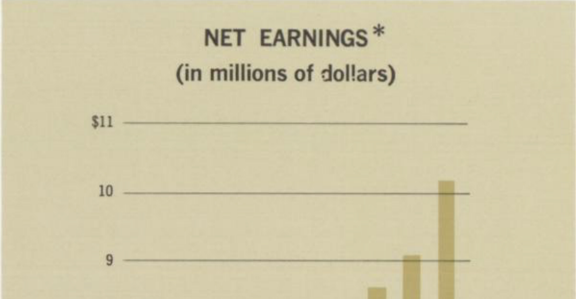
Earnings after taxes, on the same basis, totaled $10,181,608 or an increase of $1,107,433.

Net operating earnings on a per share basis for the year were $3.45, a 12% increase over last year's earnings of $3.08 per share.

With a sales increase of 9.5% and a pre-tax earnings increase of 9.8%, the relationship of pre-tax profit percent to sales was equal to 7.4%, the same as that realized last year.

As noted in the last Annual Report, earnings for last year included approximately 5 cents per share from a condemnation award in connection with a warehouse owned in Kansas City, Missouri. No similar gain has been reflected in this year's operating earnings of $3.45 per share, although the current year investment credit was 9¢ per share greater than last year.

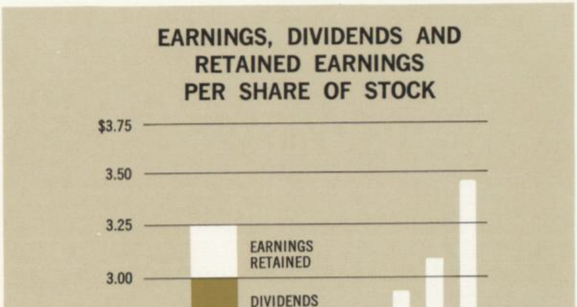
As disclosed, the Company realized an extraordinary gain from the sale of stock of Miller & Rhoads, Inc., a department store chain located in Virginia, which stock the Company had acquired by purchase over several years. The gain on the sale of the stock after deductions for Federal income taxes and the contribution made to the Savings and Profit Sharing Plan amounted to $1,387,005 or 47¢ per share.


NET EARNINGS*
(in millions of dollars)

* NOT INCLUDING EXTRAORDINARY ITEMS.

Inventory

Although merchandise inventory showed a rise of $6,431,799 for a total of $39,756,641 compared to $33,324,842 for the previous year, a substantial portion of this increase was the result of the inventory required for the three new units and the enlarged store. We feel that our inventory stock is well balanced for the spring and summer seasons.



Dividends

The dividend rate for the year remained at $1.40 per share, the same as last year.

Four quarterly dividends of 35¢ per share were paid on March 15th, June 15th, September 15th and December 15th. Dividends paid totaled $4,126,945.

The Company has paid dividends for the past twenty-eight years without interruption and during that period dividends have never been reduced.

There were 6,029 stockholders at January 31, 1968.

The chart opposite shows the net earnings, dividends paid and retained earnings during the past ten years expressed in dollars per share.

Expansion During The Year Under Review

The expansion planned for the year was completed by January 31, 1968.

Three new stores were opened and an existing store was substantially enlarged and renovated. Two small stores were closed in line with our policy of eliminating less profitable locations.

New Stores

The largest new store, comprising 162,000 square feet, was opened during August in an enclosed air-conditioned shopping mall center in Overland Park, Kansas, which is a suburb of Kansas City, Missouri. This new store operates under the Jones Store Co. name, our downtown unit in Kansas City.

During the same month, we opened another store of 124,000 square feet in Lexington, Kentucky, which although located some distance from Cincinnati, Ohio, operates under the name of McAlpin's, our Cincinnati based division.

In November, a store of approximately 51,500 square feet was opened in Bowling Green, Kentucky, under the Castner-Knott name, our downtown store in Nashville, Tennessee.

Enlarged Store

In August, the Company completed the enlargement of its suburban store in Columbia, South Carolina, doubling its size from 60,000 square feet to 120,000 square feet. This store originally opened in November, 1961.

Closed Stores

We closed a store in April, 1967 in a section of Kansas City, Missouri, which had deteriorated to a considerable degree in the past several years. During the early years of its existence, it was a fairly profitable store but changing conditions in the area, beyond our control, forced its closing.

At the end of December, we closed another small store in Muskogee, Oklahoma, which had also been operated under the Jones Store Co. name. Although it remained profitable, there was no prospect of real growth and the Company felt that its efforts in maintaining this unit could be better utilized elsewhere.

Additions And Improvements To Property And Equipment

The Company invested $8,633,578 in land, buildings and fixtures during the past year. This was the largest capital expenditure made in any one year since 1956. We estimate that our expenditures in the current year which began February 1, 1968 will approximate $9,000,000.

Depreciation (on a straight line basis) for the year under review totaled $3,982,989 which was $497,790 more than the preceding year. In addition to the above, the Company spent $860,533 for repairs and maintenance which were charged against the operation for the year.

Square Feet Of Store Properties

At January 31, 1968, there were approximately 4,942,000 square feet of space in our store buildings. We added 397,500 square feet, and closed locations with 85,800 square feet for a net addition of 311,700 square feet.

Warehouse facilities are not included in the above totals.

Current Number Of Stores

At January 31, 1968 there were 18 divisions of the Company operating 57 stores in 18 states and 4 stores in the Province of Ontario, Canada.

Expansion Planned For The Year Of 1968

During the year which commenced February 1, 1968, we plan to open one store which will add about 100,000 square feet.

This unit, operating under the Joslin name, our Denver division, will be located in Englewood, Colorado. It will replace an existing store of 37,800 square feet.

Construction will begin on five new units comprising a total of 570,000 square feet which are planned for 1969. These stores will be located in Tuscaloosa, Alabama; Jackson, Mississippi; Tallahassee, Florida; Columbia, South Carolina; and Terre Haute, Indiana. In addition, we are planning to add 80,000 square feet to an existing store.

Long Term Debt

The capital expenditures for the past ten years have totaled $51,354,361, 95% of which has come from retained earnings and the balance from sale lease-back arrangements on three store properties.

The long term debt at January 31, 1968 amounted to $13,526,096. No long term borrowings were made during our latest fiscal year. Long term debt was reduced by $1,046,366 during the year.

However, the increased pace of expansion experienced in the past several years as well as the plans for the future will necessitate further long term debt financing.

On February 15, 1968, we borrowed $3,467,500 by mortgaging fixtures on the three new stores opened during 1967. In addition, we have a commitment from the First National City Bank which will permit us to borrow additional sums as required during the next three years.

At January 31, 1968, the Company had 73 leases maturing after January 31, 1971, calling for minimum annual rentals of $2,817,376 and, in certain instances, payments for real estate and personal property taxes, other expenses and additional rentals based on increased sales.

A summary of such leases by years in which they expire is presented below:

Expiring During Fiscal Years Ending January 31	Number of Leases	Minimum Annual Rental
1972-1974	16	$ 183,144
1975-1979	20	611,887
1980-1984	7	246,235
After 1984	30	1,776,110
	73	$2,817,376

Short Term Debt

During the fall season we borrowed $6,500,000 from banks on short term notes and these were all paid off by the end of the year. The previous year, we had borrowed $5,500,000 on the same basis.

Pension and Profit Sharing Plans

The Company has a modest non-contributory pension plan covering 3,277 employees. For the year under review, the cost under the plan and other pension costs were $739,494. Comparable costs for the preceding year and the year before that were $398,430 and $267,952, respectively. The lower costs provided in those years resulted from realized gains on sales of securities held in the Fund. Beginning with February 1, 1968, the determination of current annual pension costs under the plan will spread realized and unrealized gains and losses over a period of 10 years. The Company's policy is to fund pension cost currently and the unfunded prior service cost was $2,423 at January 31, 1968.

The funds on deposit with the Trustee, First National City Bank, which has investment responsibility, had a market value of $6,916,682 at January 31, 1968.

In line with the Company's policy of offering additional and improving existing benefit programs, a Savings and Profit Sharing Plan was instituted in 1954, and it has met with unqualified approval by our employees.

The employees contribute 2% to 10% of their salaries to the plan while the Company makes a contribution geared to profits. Such funds are turned over to the Trustee, Chemical Bank New York Trust Company, which invests the employees' contribution in various securities while the Company's contribution is used to purchase Mercantile Stores common stock on a consistent basis throughout the year.

At January 31, 1968, the combined funds were valued at $19,751,982 at market value of which $10,891,576 represented contributions by employees participating in the plan and $8,860,406 by the Company.

During the year, the employees contributed $1,476,030 and the Company $880,884, which included a share of the extraordinary gain on the Miller & Rhoads transaction.

The Company's portion was allocated to all employees in the plan, so that they received 75¢ for each dollar contributed by them up to 6% of their salaries. Although employees may contribute 8% or 10% of their salaries, they only receive Company contribution based on an amount which does not exceed 6% of their salaries.

There were 3,745 employees participating in the plan and its broad acceptance is attested to by the fact that approximately 98% of those eligible are participants.

Cash Flow

With an earnings increase as well as additional depreciation realized from the increased pace of expansion, cash flow for the year reached a new high of $15,883,000, equal to $5.39 per share.

For the prior year, cash flow was $12,684,000 equal to $4.30 per share.

The details for the latest year are shown below:

Net income including extraordinary item	$11,569,000
Depreciation	3,983,000
Deferred income tax	331,000
Cash flow	$15,883,000

Stockholders' Equity

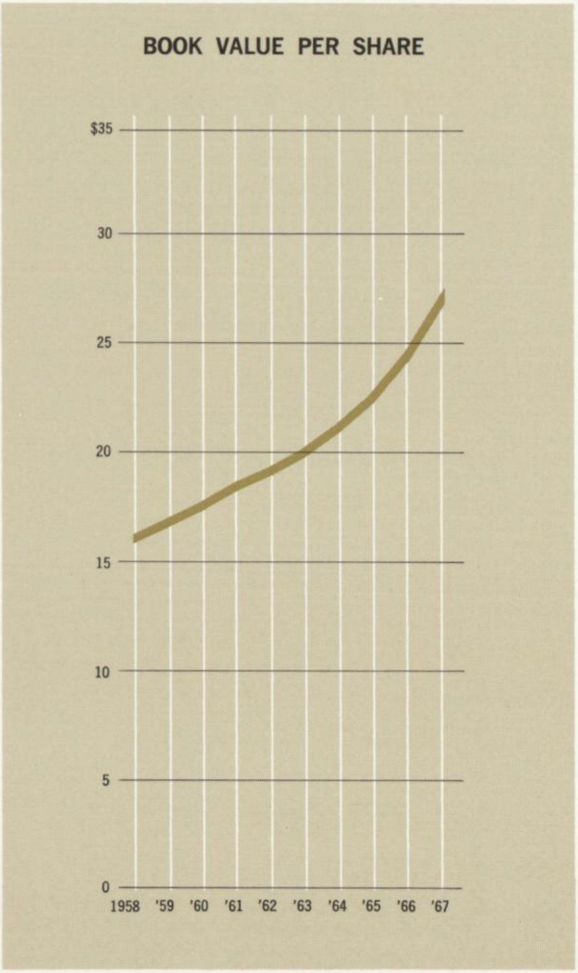
The stockholders' equity at January 31, 1968 amounted to $80,675,254 or an increase of $7,441,668. On a per share basis, the book value increased to $27.37, compared with $24.84 at January 31, 1967.

Our Approach to Fashion

Because of the affluent society we live in today and the effect of continuing inflation, nearly all retail organizations are emphasizing how well they are "trading up" in the merchandising of their stores.

Your Company feels that it has, more than ever before in its history, achieved definite results in this direction. If you, as stockholders, could see some of the newer physical plants like the new Jones Store in Overland Park, Kansas, or the remodeled and expanded White's in Richland Mall, Columbia, S.C., you would be proud of these facilities. They represent the trend in display and presentation of merchandise in which we are going.

Then, from a resource point of view, many of the resources that 5 to 10 years ago we considered "prestige" are today our volume resources. For instance, in women's dresses,



the brand "R & K" is today widely accepted in our stores. We now consider our prestige resources in dresses – "the Jerry Silvermans", "the Carlyes", "the Rembrandts", to name a few.

There is real fashion today in the home furnishing divisions. In most of our newer stores we have put in sterling silver departments, featuring lines like Gorham and Reed & Barton.

In gift and china departments, we have added lines such as Fostoria and Waterford in glassware, and Lenox and Wedgewood in china. Stiffel in lamps, Karastan in carpeting, and Globe in furniture, are a few additional examples of our trading up in merchandise. Today, our stores carry a selection of branded lines as excellent as may be found in many of the finest department stores in the country.

One other phase that is having a real effect on our merchandising policies is our import program. We maintain our own office staff and warehousing, so we can do our own importing more effectively than buying through importers. Thus, we are able to offer merchandise different from many of our competitors and, at the same time, often more reasonably priced.

Another merchandising function we continue to emphasize is our own private brands. Here we develop the best product we can, and then price it competitively to give our customers real value. This merchandising tool has been one of the fundamentals that has built our business. We use such brand names as Merville, Jean Sutton, First Lady, and Royal Knight, many of which now have become as important in their locales as national brands.

Electronic Data Processing

During the year just ended we have completed the replacement of older computers with modern 360 models. We have also made significant progress toward the establishment of three regional computer centers which will service the entire Company. Preparatory work has been progressing at a steady rate enabling us to anticipate meeting the schedule of having all three regional centers operational in the second half of this year.

Accounts Payable and financial accounting functions have been completely automated. Customers Accounts Receivable record keeping will be almost entirely automated and the majority of the fashion merchandising record keeping functions will be computerized by the end of this year.

Our policy has been to approach automation at a steady pace rather than on any crash type program. As our employees increase their ability to work with these systems, we will progress toward more advanced systems. We will continue to study additional areas of our business with the idea of selecting those most suitable for automation in the future.

Executive Changes

On February 1, 1968, the Board of Directors elected two additional directors; George Burton Pearson, Jr. and Charles E. Stallings.

Mr. Pearson is, at present, Senior Vice President, Director and Chairman of the Trust Committee of the Wilmington Trust Company, Wilmington, Delaware.

Mr. Stallings joined our Company in 1946, and was elected Vice President in Charge of Operations and Personnel in 1957.

On the same date, the Board elected three additional Vice Presidents. They were:

Ronald W. Ferguson, President
The Jones Store Co.
Kansas City, Missouri,
William G. Stubenvoll, President
The McAlpin Co.
Cincinnati, Ohio,
Leon F. Winbigler, President
The Lion Dry Goods Company
Toledo, Ohio,

each store being a wholly owned subsidiary of the Company.

In addition, H. Marvin Dorethy became President of J. Bacon & Sons in Louisville, Kentucky, upon Harold S. Johnson's appointment as Chairman of the Board of that Corporation.

James C. Lovell was elected President of the Castner-Knott Dry Goods Co. and Robert C. Hilton, former President, was elected Chairman of the Board.

Robert W. Tyler was transferred from Fargo, North Dakota, where he was President of O. J. deLendrecie to Duluth, Minnesota, as President of Duluth Glass Block Store Company.

Mr. Ray Klein succeeded Mr. Tyler as President of O. J. deLendrecie.

Mr. Jack Overly became President of The Crews-Beggs Dry Goods Company when Robert C. Hess left the Company.

Current Trend

As this report is being completed, combined sales for the months of February and March, 1968 show an increase of approximately 12% over the sales for the same two months of last year.

Current indications are that this trend will continue through spring and into our summer season.

The financial statements for the last two years are presented on the following pages, together with the report of our auditors, Arthur Andersen & Co., independent public accountants. We have also included a Ten Year Review of the highlights of our operation.

We have reviewed briefly the results of our activities during the past year and have given you a glimpse of our plans for the future. But nothing that has been accomplished would have been possible without the contribution made by our employees, who number 8,500 on a regular basis, increasing to about 12,000 during peak selling seasons.

Respectfully submitted,

Harold W

Chairman of the Board

R. Nelson Shaw

President

MERCANTILE STORES COMPANY, INC.

and Subsidiary Companies

STATEMENTS OF CONSOLIDATED INCOME
FOR THE YEARS ENDED JANUARY 31, 1968 AND 1967

	Fiscal Year Ended	
	January 31, 1968	January 31, 1967
Net Sales	$256,549,686	$234,267,366
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	$226,678,829	$207,305,278
Depreciation and amortization	3,982,989	3,485,199
Rentals paid—see comments on page 9	3,365,344	2,989,734
Interest expense	1,815,889	1,940,398
Maintenance and repairs	860,533	754,152
Pension expense—see comments on page 9	739,494	398,430
	$237,443,078	$216,873,191
Income Before Income Taxes	$ 19,106,608	$ 17,394,175
Federal income taxes	$ 8,165,000	$ 7,660,000
State and Canadian income taxes	760,000	660,000
	$ 8,925,000	$ 8,320,000
Net Income Before Extraordinary Item	$ 10,181,608	$ 9,074,175
Extraordinary Item — gain on sale of Miller & Rhoads, Inc. capital stock (net of taxes and profit-sharing contribution — the Federal income tax amounted to $443,000)	1,387,005	—
Net Income	$ 11,568,613	$ 9,074,175
Earnings Per Share:		
Before extraordinary item	$3.45	$3.08
Extraordinary item	.47	—
Net income	$3.92	$3.08

In the annual reports to the Securities and Exchange Commission, the cost of goods sold, central buying and occupancy expenses are $177,456,777 and $165,649,789, respectively, for the years January 31, 1968 and 1967, and selling, general and administrative expenses are $58,552,003 and $49,823,363, respectively.

MERCANTILE STORES COMPANY, INC.

and Subsidiary Companies

CONSOLIDATED BALANCE SHEETS – JANUARY 31, 1968 AND 1967

	January 31	
	1968	1967
ASSETS		
Current Assets:		
Cash	**$ 11,517,632**	$ 11,132,127
Accounts receivable–		
Customers accounts–		
Regular retail accounts	**$ 9,105,676**	$ 9,072,597
Installment accounts not sold	**897,856**	987,252
Equity in accounts sold (the uncollected balances of which amounted to $28,542,249 and $26,363,002, respectively)	**10,854,225**	12,570,233
Other accounts	**1,886,137**	1,538,907
	$ 22,743,894	$ 24,168,989
Less – Reserve for doubtful accounts	**2,122,609**	2,012,946
	$ 20,621,285	$ 22,156,043
Merchandise inventories, priced at the lower of cost or market determined by the retail inventory method	**$ 39,756,641**	$ 33,324,842
U. S. Government and other marketable securities, at cost, approximately equal to market	**$ 456,816**	$ 1,793,119
Unexpired insurance, prepaid rent, etc.	**$ 718,628**	$ 867,034
Total current assets	**$ 73,071,002**	$ 69,273,165
Property and Equipment, at cost:		
Land	**$ 8,387,207**	$ 8,332,842
Buildings and building improvements	**41,589,310**	40,169,549
Less – Accumulated depreciation	**(18,504,642)**	(17,488,115)
Store fixtures, etc.	**28,209,518**	23,520,087
Less – Accumulated depreciation	**(10,837,074)**	(9,852,814)
	$ 48,844,319	$ 44,681,549
	$121,915,321	$113,954,714

	January 31	
	1968	1967
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 13,137,421	$ 11,280,287
Accrued taxes (other than Federal income), compensation, rent, etc.	7,774,760	7,237,576
Reserve for Federal income taxes	3,780,424	4,701,572
Current maturities of long-term debt	1,046,366	1,285,231
Total current liabilities	$ 25,738,971	$ 24,504,666
Long-Term Debt:		
5⅛% notes payable to an insurance company, $333,000 due annually to 1977, $2,500,000 due December 1, 1978	$ 5,502,000	$ 5,835,000
Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages	8,024,096	8,737,462
	$ 13,526,096	$ 14,572,462
Deferred Federal Income Taxes	$ 1,975,000	$ 1,644,000
Lease Obligations – see comments on page 9.		
Stockholders' Equity:		
Common stock, par value $1.83⅓ per share–Authorized and issued 2,950,998 shares	$ 5,410,163	$ 5,410,163
Less – 3,180 shares held in treasury	5,830	5,830
Outstanding 2,947,818 shares	$ 5,404,333	$ 5,404,333
Capital surplus	6,145,082	6,145,082
Earnings retained for use in the business (earned surplus) – $56,316,877 restricted at January 31, 1968, as to payment of cash dividends under terms of insurance company loan agreement	69,125,839	61,684,171
	$ 80,675,254	$ 73,233,586
	$121,915,321	$113,954,714

MERCANTILE STORES COMPANY, INC.

and Subsidiary Companies

STATEMENTS OF CONSOLIDATED EARNINGS RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS) FOR THE YEARS ENDED JANUARY 31, 1968 AND 1967

	Fiscal Year Ended	
	January 31, 1968	January 31, 1967
Balance, beginning of year	**$61,684,171**	$55,705,205
Net income	**11,568,613**	9,074,175
	$73,252,784	$64,779,380
Dividends:		
$1.40 per share, paid in each year	**$ 4,126,945**	$ 4,126,945
$.35 per share, paid in March, 1966—declared and charged in December, 1965	**—**	(1,031,736)
	$ 4,126,945	$ 3,095,209
Balance, end of year	**$69,125,839**	$61,684,171

STATEMENTS OF CONSOLIDATED SOURCE AND DISPOSITION OF FUNDS FOR THE YEARS ENDED JANUARY 31, 1968 AND 1967

	January 31, 1968	January 31, 1967
Sources of funds:		
Net income for the year	**$11,568,613**	$ 9,074,175
Depreciation and amortization	**3,982,989**	3,485,199
Increase in deferred Federal income taxes	**331,000**	125,000
	$15,882,602	$12,684,374
Proceeds from sale lease-back	**—**	1,100,000
Other	**487,819**	175,848
	$16,370,421	$13,960,222
Disposition of funds:		
Dividends declared	**$ 4,126,945**	$ 3,095,209
Additions to property and equipment	**8,633,578**	6,886,472
Reduction in long-term debt	**1,046,366**	1,285,231
	$13,806,889	$11,266,912
Increase in working capital	**$ 2,563,532**	$ 2,693,310
Working capital at beginning of year	**44,768,499**	42,075,189
Working capital at end of year	**$47,332,031**	$44,768,499

ARTHUR ANDERSEN & CO.
NEW YORK, N. Y.

To the Board of Directors and Stockholders of
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheets of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1968 and 1967, and the related consolidated statements of income, earnings retained for use in the business (earned surplus) and source and disposition of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1968 and 1967, and the results of their operations and the source and disposition of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N. Y.,
March 29, 1968.

MERCANTILE STORES COMPANY, INC.

and Subsidiary Companies

Ten-Year Review

Year ended January 31	1968	1967	1966
Operating Results			
Net sales	$256,549,686	$234,267,366	$220,610,170
Income before income taxes	19,106,608	17,394,175	16,590,344
Percent to sales	7.4	7.4	7.5
Net income before extraordinary item	10,181,608*	9,074,175	8,600,344
Percent to sales	4.0	3.9	3.9
Dividends paid	4,126,945	4,126,945	3,537,382
Per Common Share			
Net income before extraordinary item	$ 3.45*	$ 3.08	$ 2.92
Dividends	1.40	1.40	1.20
Cash Flow	5.39	4.30	4.06
Financial Position			
Working capital	$ 47,332,031	$ 44,768,499	$ 42,075,189
Ratio of current assets to current liabilities	2.84	2.83	2.57
Receivables – net	20,621,285	22,156,043	24,700,517
Merchandise inventories	39,756,641	33,324,842	32,178,978
Property and equipment – net	48,844,319	44,681,549	42,556,124
Total assets	121,915,321	113,954,714	111,392,761
Long term debt	13,526,096	14,572,462	15,857,693
Earnings retained in the business	69,125,839	61,684,171	55,705,205
Stockholders' equity	80,675,254	73,233,586	67,254,620
Per common share	27.37	24.84	22.82
Stores at end of year			
Number	61	60	58
Total square feet	4,942,000	4,630,000	4,427,000

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* In addition to earnings shown above for the year ended January 31, 1968, an extraordinary gain on the sale of an investment was realized in the net amount of $1,387,005, or 47¢ per share.

1965	1964	1963	1962	1961	1960	1959
$207,260,905	$192,408,732	$183,840,305	$175,820,970	$170,247,354	$167,799,529	$157,915,790
14,252,235	11,160,157	10,297,664	10,068,178	9,668,412	10,375,430	8,709,061
6.9	5.8	5.6	5.7	5.7	6.2	5.5
7,132,235	5,370,157	4,887,664	4,818,178	4,658,412	4,985,430	4,219,061
3.4	2.8	2.7	2.7	2.7	3.0	2.7
3,537,382	2,947,818	2,947,818	2,431,950	2,431,950	2,423,777	2,415,029
$ 2.42	$ 1.82	$ 1.66	$ 1.63	$ 1.58	$ 1.69	$ 1.44
1.20	1.00	1.00	.82½	.82½	.82½	.82½
3.61	2.97	2.74	2.67	2.57	2.61	2.36
$ 39,567,014	$ 37,533,095	$ 37,290,759	$ 35,297,601	$ 34,538,888	$ 32,753,039	$ 26,076,197
2.67	2.58	2.30	2.93	3.13	2.79	2.24
21,846,927	20,556,089	27,225,565	15,778,321	15,120,028	14,741,032	12,985,902
30,124,294	29,665,608	28,926,550	27,070,761	26,087,816	27,429,533	24,562,675
41,239,303	40,881,816	39,765,753	38,020,878	36,873,849	36,837,080	36,651,716
104,446,672	102,129,106	105,641,665	91,616,657	87,627,136	87,847,976	83,747,280
16,176,923	17,407,370	18,616,310	17,080,123	17,850,609	18,606,453	14,828,883
51,673,979	48,079,126	45,656,787	43,716,941	41,330,713	39,104,251	36,542,598
63,223,394	59,628,541	57,206,202	55,266,356	52,880,128	50,653,666	47,899,030
21.45	20.23	19.41	18.75	17.94	17.18	16.35
60	61	61	61	58	57	57
4,447,000	4,150,000	4,113,000	3,936,000	3,924,000	3,789,000	3,635,000

MERCANTILE STORES COMPANY, INC.

DEPARTMENT STORE DIVISIONS

Bacon's *Established 1845*
Louisville, Kentucky
H. Marvin Dorethy, President
- Downtown Louisville
- St. Matthew's
- Shively
- Jeffersonville, Ind.

Castner-Knott *Established 1898*
Nashville, Tennessee
James C. Lovell, President
- Downtown Nashville
- Green Hills
- Donelson
- Shelbyville
- Harding Mall
- Bowling Green, Ky.

Crews-Beggs *Established 1888*
Pueblo, Colorado
Jack Overly, President
- Downtown Pueblo

O. J. DeLendrecies *Established 1879*
Fargo, North Dakota
Ray Klein, President
- Downtown Fargo

Gayfer's *Established 1879*
Mobile, Alabama
Fred J. Bostrom, President
- Downtown Mobile
- Springdale
- Pensacola, Fla.
- Edgewater, Miss.

Glass Block *Established 1887*
Duluth, Minnesota
Robert W. Tyler, President
- Downtown Duluth

Hennessy's *Established 1885*
Butte, Montana
Francis E. Canny, President
- Downtown Butte
- Helena

Jones *Established 1887*
Kansas City, Missouri
Ronald W. Ferguson, President
- Downtown Kansas City
- Blue Ridge
- Independence
- Prairie Village, Kans.
- Pittsburg, Kans.
- Overland Park

Joslin's *Established 1873*
Denver, Colorado
Donald R. Chabot, President
- Downtown Denver
- Englewood
- Lakewood
- Greeley
- Boulder
- Aurora
- Villa Italia

Lazarus *Established 1889*
Wilkes-Barre, Pennsylvania
Russell W. Lackie, President
  Downtown Wilkes-Barre

Lion *Established 1857*
Toledo, Ohio
Leon F. Winbigler, President
  Downtown Toledo
  Westgate

McAlpin's *Established 1852*
Cincinnati, Ohio
William G. Stubenvoll, President
  Downtown Cincinnati
  Kenwood
  Western Hills
  Cherry Grove
  Middletown
  Lexington, Ky.

Montgomery Fair *Established 1868*
Montgomery, Alabama
Stephen E. Maxwell, President
  Suburban Montgomery
  Eastbrook
  Opelika

Peoples *Established 1888*
Tacoma, Washington
Henry W. Powell, President
  Downtown Tacoma
  Yakima
  Lakewood
  Port Angeles
  Wenatchee
  Olympia (Lacey)

The Right House *Established 1843*
Hamilton, Ontario, Canada
John R. Barrett, President
  Downtown Hamilton
  Brantford
  Galt
  St. Catharines

Root's *Established 1856*
Terre-Haute, Indiana
Frank C. Schrohe, President
  Downtown Terre-Haute
  Sullivan
  Robinson, Ill.

J. B. White *Established 1874*
Augusta, Georgia
Paul A. Martsolf, President
  Downtown Augusta
  National Hills
  Aiken, S. C.

J. B. White *Established 1874*
Columbia, South Carolina
Thomas E. Hale, President
  Suburban Columbia

Represented in the markets by
MERCANTILE STORES COMPANY, INC. (N. Y.)
(A wholly owned subsidiary company)
128 W. 31st Street, New York, N. Y.
Cable Address: Merstore
